

LAKE MISSAUKEE AREA FIRE AUTHORITY

LAKE CITY, MICHIGAN

MARCH 31, 2004

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

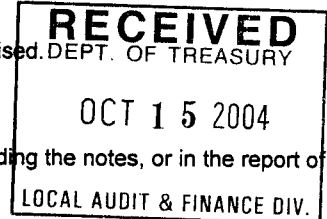
Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>Lake Missaukee Area Fire Authority</b>	County <b>Missaukee</b>
Audit Date <b>3/31/04</b>	Opinion Date <b>9/27/04</b>	Date Accountant Report Submitted to State: <b>10/6/04</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations




You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☒ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>Baird, Cotter &amp; Bishop, P.C.</b>			
Street Address <b>134 W. Harris Street</b>	City <b>Cadillac</b>	State <b>MI</b>	ZIP <b>49601</b>
Accountant Signature 		Date	

LAKE MISSAUKEE AREA FIRE AUTHORITY  
LAKE CITY, MICHIGAN

MARCH 31, 2004

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CERTIFIED PUBLIC ACCOUNTANTS

September 27, 2004

INDEPENDENT AUDITORS' REPORT

To the Fire Board  
Lake Missaukee Area Fire Authority  
Missaukee County  
Lake City, Michigan

We have audited the accompanying general-purpose financial statements of the Lake Missaukee Area Fire Authority, Lake City, Michigan, as of and for the year ended March 31, 2004, as listed in the table of contents. The general-purpose financial statements are the responsibility of the Fire Authority. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general-purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general-purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general-purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note I.B, the Fire Authority's policy is to prepare its general-purpose financial statements on the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the general-purpose financial statements referred to in the first paragraph present fairly, in all material respects, the cash balances of the Lake Missaukee Area Fire Authority, Lake City, Michigan, at March 31, 2004, and the cash receipts it received and cash disbursements it paid for the year then ended on the basis of accounting described in Note I.B.

BAIRD, COTTER AND BISHOP, P.C.

*Baird, Cotter and Bishop, P.C.*

LAKE MISSAUKEE AREA FIRE AUTHORITY  
LAKE CITY, MICHIGAN

COMBINED STATEMENT OF ASSETS AND LIABILITIES ARISING FROM CASH TRANSACTIONS  
ALL FUND TYPES AND ACCOUNT GROUPS

MARCH 31, 2004

	GOVERNMENTAL FUND TYPES		ACCOUNT GROUP	TOTALS (MEMORANDUM ONLY)
	GENERAL	SPECIAL REVENUE	GENERAL FIXED ASSETS	
<u>ASSETS</u>				
Cash				
Money Market Account	\$ (411)	\$ 0	\$ 0	\$ (411)
Certificate of Deposit	0	60,937	0	60,937
Real Estate	0	0	351,175	351,175
Fire Equipment	0	0	818,460	818,460
Office Equipment	0	0	5,560	5,560
TOTAL ASSETS	\$ (411)	\$ 60,937	\$ 1,175,195	\$ 1,235,721
<u>LIABILITIES AND EQUITY</u>				
<u>Liabilities</u>	\$ 0	\$ 0	\$ 0	\$ 0
<u>EQUITY</u>				
Investment in General Fixed Assets	\$ 0	\$ 0	\$ 1,175,195	\$ 1,175,195
Balance				
Unreserved				
Designated for Fire				
Authority Improvements	0	60,937	0	60,937
Undesignated (Deficit)	(411)	0	0	(411)
TOTAL EQUITY	\$ (411)	\$ 60,937	\$ 1,175,195	\$ 1,235,721
TOTAL LIABILITIES AND EQUITY	\$ (411)	\$ 60,937	\$ 1,175,195	\$ 1,235,721

The accompanying notes are an integral part of these financial statements.

LAKE MISSAUKEE AREA FIRE AUTHORITY  
LAKE CITY, MICHIGAN

COMBINED STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN BALANCE  
ALL GOVERNMENTAL FUND TYPES

FOR THE YEAR ENDED MARCH 31, 2004

	GENERAL FUND	SPECIAL REVENUE FUND	TOTALS (MEMORANDUM ONLY)
<u>RECEIPTS</u>			
Local Sources			
Contributions from Local Units	\$ 77,911	\$ 1,200	\$ 79,111
Charges for Services			
Fire Runs	24,450	0	24,450
Interest and Rents			
Interest Earnings	63	433	496
Total Receipts	\$ 102,424	\$ 1,633	\$ 104,057
<u>DISBURSEMENTS</u>			
Public Safety			
Personal Services			
Salaries and Wages	\$ 15,657	\$ 0	\$ 15,657
Supplies			
Office and Computer Supplies	2,445	0	2,445
Operating Supplies			
Gas and Oil	974	0	974
Maintenance Supplies	265	0	265
Uniforms	3,770	0	3,770
Turnout Gear	342	0	342
Other Services and Charges			
Utilities and Telephone	5,397	0	5,397
Training	785	0	785
Repair and Maintenance			
Equipment	794	0	794
Building	985	1,441	2,426
Radio	2,314	0	2,314
Apparatus	6,377	0	6,377
Audit	1,000	0	1,000
Logistics	1,555	0	1,555
Gas Reimbursements	3,089	0	3,089

The accompanying notes are an integral part of these financial statements.

LAKE MISSAUKEE AREA FIRE AUTHORITY  
LAKE CITY, MICHIGAN

COMBINED STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN BALANCE  
ALL GOVERNMENTAL FUND TYPES

FOR THE YEAR ENDED MARCH 31, 2004

	GENERAL FUND	SPECIAL REVENUE FUND	TOTALS (MEMORANDUM ONLY)
Capital Outlay			
Fire Equipment	2,972	0	2,972
Other Functions			
Insurance and Bonds	9,789	0	9,789
Employee Benefits	1,198	0	1,198
Debt Service			
Principal Repayment	20,839	0	20,839
Interest Charges	1,014	0	1,014
Total Disbursements	\$ 81,561	\$ 1,441	\$ 83,002
Excess of Receipts Over (Under) Disbursements	\$ 20,863	\$ 192	\$ 21,055
<u>OTHER FINANCING SOURCES (USES)</u>			
Operating Transfers In	\$ 0	\$ 33,673	\$ 33,673
Operating Transfers Out	(33,673)	0	(33,673)
Total	\$ (33,673)	\$ 33,673	\$ 0
Excess of Receipts and Other Sources Over (Under) Disbursements and Uses	\$ (12,810)	\$ 33,865	\$ 21,055
<u>BALANCE</u> - April 1, 2003	12,399	27,072	39,471
<u>BALANCE</u> - March 31, 2004 (Deficit)	\$ (411)	\$ 60,937	\$ 60,526

The accompanying notes are an integral part of these financial statements.

LAKE MISSAUKEE AREA FIRE AUTHORITY  
LAKE CITY, MICHIGAN

COMBINED STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN BALANCE  
BUDGET AND ACTUAL  
ALL GOVERNMENTAL FUND TYPES

FOR THE YEAR ENDED MARCH 31, 2004

	GENERAL FUND		
	BUDGET	ACTUAL	VARIANCE- FAVORABLE (UNFAVORABLE)
<u>RECEIPTS</u>			
Local Sources			
Contributions from Local Units	\$ 72,963	\$ 77,911	\$ 4,948
Charges for Services			
Fire Runs	23,250	24,450	1,200
Interest and Rents			
Interest Earnings	100	63	(37)
Total Receipts	\$ 96,313	\$ 102,424	\$ 6,111
<u>DISBURSEMENTS</u>			
Public Safety			
Personal Services			
Salaries and Wages	\$ 15,000	\$ 15,657	\$ (657)
Supplies			
Office and Computer Supplies	2,400	2,445	(45)
Operating Supplies			
Gas and Oil	975	974	1
Maintenance Supplies	270	265	5
Uniforms	3,775	3,770	5
Turnout Gear	350	342	8
Other Services and Charges			
Utilities and Telephone	5,400	5,397	3
Training	789	785	4
Repair and Maintenance			
Equipment	795	794	1
Building	1,000	985	15
Radio	2,330	2,314	16
Apparatus	6,377	6,377	0
Audit	1,000	1,000	0
Logistics	1,555	1,555	0
Gas Reimbursements	2,900	3,089	(189)



EXHIBIT C

## SPECIAL REVENUE FUND

BUDGET		ACTUAL		VARIANCE- FAVORABLE (UNFAVORABLE)
\$	0	\$	1,200	\$ 1,200
	0		0	0
	0		433	433
\$	0	\$	1,633	\$ 1,633

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LAKE MISSAUKEE AREA FIRE AUTHORITY  
LAKE CITY, MICHIGAN

COMBINED STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN BALANCE  
BUDGET AND ACTUAL  
ALL GOVERNMENTAL FUND TYPES

FOR THE YEAR ENDED MARCH 31, 2004

	GENERAL FUND		
	BUDGET	ACTUAL	VARIANCE- FAVORABLE (UNFAVORABLE)
Capital Outlay			
Fire Equipment	2,972	2,972	0
Other Functions			
Insurance and Bonds	9,789	9,789	0
Employee Benefits	3,000	1,198	1,802
Debt Service	26,500	21,853	4,647
Total Disbursements	\$ 87,177	\$ 81,561	\$ 5,616
Excess of Receipts Over (Under) Disbursements	\$ 9,136	\$ 20,863	\$ 11,727
<u>OTHER FINANCING SOURCES (USES)</u>			
Operating Transfers In	\$ 0	\$ 0	\$ 0
Operating Transfers Out	(29,025)	(33,673)	(4,648)
Total	\$ (29,025)	(33,673)	\$ (4,648)
Excess of Receipts and Other Sources Over (Under) Disbursements and Other Uses	\$ (19,889)	\$ (12,810)	\$ 7,079
<u>BALANCE</u> - April 1, 2003	12,399	12,399	0
<u>BALANCE</u> - March 31, 2004 (Deficit)	\$ (7,490)	\$ (411)	\$ 7,079

The accompanying notes are an integral part of these financial statements.

EXHIBIT C

SPECIAL REVENUE FUND		
BUDGET	ACTUAL	VARIANCE- FAVORABLE (UNFAVORABLE)
0	0	0
0	0	0
0	0	0
0	0	0
\$ 0	\$ 1,441	\$ (1,441)
\$ 0	\$ 192	\$ 192
\$ 29,025	\$ 33,673	\$ 4,648
0	0	0
29,025	\$ 33,673	\$ 4,648
\$ 29,025	\$ 33,865	\$ 4,840
27,072	27,072	0
\$ 56,097	\$ 60,937	\$ 4,840

The accompanying notes are an integral part of these financial statements.

LAKE MISSAUKEE AREA FIRE AUTHORITY  
LAKE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2004

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Lake Missaukee Area Fire Authority is a joint venture volunteer fire department supported by the City of Lake City and the Townships of Caldwell, Forest, Lake, Pioneer and Reeder. Each unit contributes an amount based on taxable value in each unit to support the Fire Authority. Under the criteria established by generally accepted accounting principles, the Authority has determined that there are no component units which should be included in its reporting entity.

B. Measurement Focus, Basis of Accounting and Basis of Presentation

The accounts of the Fire Authority are organized on the basis of funds and account groups. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements. Account groups are a reporting device to account for certain assets and liabilities of the governmental funds not recorded directly in those funds.

The Fire Authority has the following fund type and account groups:

Governmental funds are used to account for the Fire Authority's general government activities. The Fire Authority uses the flow of economic resources measurement focus and the modified cash basis of accounting for these funds which is an other comprehensive basis of accounting (OCBOA). Under the modified cash basis of accounting, revenues are recognized when collected (i.e., when cash is received). Expenditures are recorded when cash is disbursed.

Governmental funds include the following fund types:

The General Fund is the Fire Authority's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Special Revenue Fund accounts for revenue sources that are legally restricted to expenditures for specific purposes. The Fire Authority's Special Revenue Fund (Improvement Revolving Fund) is used to account for the accumulation of funds for the purchase of capital improvements.

Account Groups. The General Fixed Asset Account Group is used to account for fixed assets of the Fire Authority.

LAKE MISSAUKEE AREA FIRE AUTHORITY  
LAKE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2004

**C. Assets, Liabilities and Equity**

**1. Deposits and Investments**

The Fire Authority's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities or three months or less from date of acquisition.

The Fire Authority's investment policy delegates management responsibility to the Lake Missaukee Area Fire Authority Treasurer.

The Fire Authority is limited to investments authorized by PA 20 of 1943, as amended, and may invest in the following:

- a. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, or depository of a financial institution. Authorized depositories shall be designated by the Lake Missaukee Area Fire Authority Board at the Board's organizational meeting after each regular election of board members.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not more than 270 days after the date of purchase.
- d. Repurchase agreements consisting of instruments listed in (a).
- e. Bankers' acceptances of United States banks.
- f. Investment pools through an interlocal agreement under the Urban Cooperation Act of 1967, 1967 (Ex Sess) PA 7, MCL 124.501 to 124.512.
- g. Investment pools organized under the Surplus Funds Investment Pool Act, 1982 PA 367, MCL 129.111 to 129.118.

LAKE MISSAUKEE AREA FIRE AUTHORITY  
LAKE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2004

2. Fixed Assets

Fixed assets used in governmental fund types (general fixed assets) are accounted for in the General Fixed Assets Account Group at cost or estimated historical cost if purchased or constructed. Donated fixed assets are recorded at their estimated fair value at the date of donation. Assets in the general fixed assets account group are not depreciated. Interest incurred during construction is not capitalized.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets' lives are not included in the general fixed assets account group.

3. Long-Term Obligations

The Township reports long-term debt of governmental funds at face value in the general long-term debt account group.

4. Memorandum Only - Total Columns

Total columns on the general-purpose financial statements are captioned "Memorandum Only" because they do not represent consolidated financial information and are presented only to facilitated financial analysis. The columns do not present information that reflects financial position, results of operations or cash flows in accordance with generally accepted accounting principles. Interfund eliminations have not been made in the aggregation of this data.

5. Use of Estimates

This presentation of financial statements on the modified cash basis of accounting requires the Fire Authority to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of receipts and disbursements during the reporting period. Actual results could differ from those estimates.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

The annual budget is adopted on the modified cash basis in accordance with the requirements of Michigan Public Act 621 of 1978 "The Uniform Budgeting and Accounting Act". A public hearing is held to obtain public comments. Appropriations lapse at year end. Budgeted amounts presented are as originally adopted on February 11, 2003, or as amended by the Fire Authority Board from time to time throughout the year.

LAKE MISSAUKEE AREA FIRE AUTHORITY  
LAKE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2004

The appropriated budget is prepared by fund and activity. The Fire Authority Board exercises budgetary control over expenditures.

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the Fire Authority because it is not, at present, considered necessary to assure effective budgetary control or to facilitate effective cash planning and control.

**B. Excess of Expenditures Over Appropriations**

Total expenditures of \$1,441 in the Special Revenue (Building and Equipment) Fund exceeded budgeted appropriations of \$0 by \$1,441. This overexpenditure was funded by available beginning balance and receipts in excess of budgeted receipts.

**III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS**

**A. Deposits and Investments**

The Fire Authority's deposits at year-end were entirely covered by Federal Deposit Insurance. At year-end, the carrying amount of the Fire Authority's deposits was \$60,526 and the bank balance was \$69,714.

The carrying amount of the Fire Authority's deposits at year-end are shown below:

	GENERAL FUND	IMPROVEMENT REVOLVING FUND
Money Market Account		
Chemical Bank West		
Lake City, Michigan	\$ (411)	\$ 0
Certificate of Deposit		
Fifth Third Bank		
Lake City, Michigan	0	60,937
	<u>\$ (411)</u>	<u>\$ 60,937</u>

LAKE MISSAUKEE AREA FIRE AUTHORITY  
LAKE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2004

**B. Fixed Assets**

Activity in the general fixed assets account group for the Fire Authority for the year ended March 31, 2004, was as follows:

	BALANCE 04/01/03	ADDITIONS	DELETIONS	BALANCE 03/31/04
Real Estate	\$ 351,175	\$ 0	\$ 0	\$ 351,175
Fire Equipment	815,488	2,972	0	818,460
Office Equipment	5,560	0	0	5,560
TOTAL	\$ 1,172,223	\$ 2,972	\$ 0	\$ 1,175,195

**IV. OTHER INFORMATION**

**A. Property Taxes**

Each Governmental Unit which is a member of the Fire Authority levies property tax millage to support the Fire Authority. The property tax collections and taxes receivable are recognized by the individual units and remitted to the Fire Authority periodically. The Fire Authority recognizes the funds received from the units as aid from other governmental units.

**B. Risk Management**

The Fire Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Fire Authority participates in a pool of municipalities within the State of Michigan for self-insuring property and casualty, crime, general liability, errors and omissions, and worker's compensation insurance. The Fire Authority pays annual premiums to the pool for the respective insurance coverage. In the event the pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessments to make up the deficiency. The Fire Authority has not been informed of any special assessments being required for the current year or the three prior years.

The Fire Authority continues to carry insurance for other risks of loss, including fidelity bonds.



LAKE MISSAUKEE AREA FIRE AUTHORITY  
LAKE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2004

**C. Interest Income and Expense**

For the year ended March 31, 2004, interest income and interest expense is summarized as follows:

	<u>INTEREST</u>	
	<u>INCOME</u>	<u>EXPENSE</u>
General Fund	\$ 63	\$ 1,014
Improvement Revolving Fund	433	0
	<u>\$ 496</u>	<u>\$ 1,014</u>

**D. Changes in Long-Term Debt**

The following is a summary of the long-term debt transactions of the Fire Authority for the year ended March 31, 2004:

Long-Term Debt Payable at April 1, 2003	\$ 20,839
New Debt Incurred	0
Payments on Debt	<u>20,839</u>
Long-Term Debt Payable at March 31, 2004	<u>\$ 0</u>

**E. General Fund Deficit**

At March 31, 2004, the Fire Authority's General Fund bank account had a technical overdraft of \$411. This resulted in the year end General Fund balance reflecting a deficit balance. This overdraft and deficit were eliminated by bank deposits made on April 5, 2004.

*Baird, Cotter and Bishop, P.C.*

CERTIFIED PUBLIC ACCOUNTANTS

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September 27, 2004

LETTER OF COMMENTS AND RECOMMENDATIONS

To the Fire Board  
Lake Missaukee Area Fire Authority  
Missaukee County  
Lake City, Michigan

As a result of our audit of the financial statements of the Lake Missaukee Area Fire Authority for the year ended March 31, 2004, we would like to take this opportunity to comment on the following items relative to the management and accounting records and procedures of the Authority:

Condition of Accounting Records

The accounting records were again found to be in good order and well organized. We would like to congratulate the accounting personnel for doing a good job and thank them for their efforts in accumulating the information needed for the audit.

Budgeting

Pertaining to the Fire Authority's compliance with Public Act 621 of 1978, the following is noted:

1. Total disbursements in the Special Revenue (Building and Equipment) Fund exceeded the budget.

The Board should continue to monitor the budget and make amendments prior to incurring expenditures in excess of budgeted amounts.

GASB 34

The Government Accounting Standards Board has issued a new pronouncement that will dramatically change the way governmental entities report their financial information. For the Lake Missaukee Area Fire Authority, GASB 34 will become effective for the year ending March 31, 2005.

Some of the changes required by GASB 34 are as follows:

- a) Management's discussion and analysis will be the first thing in a financial report. This will be the administration's narrative overview of the information contained in the financial statements.
- b) The budgetary comparison information must report the original adopted budget and the final amended budget.
- c) Capital assets and long-term liabilities will be required to be reported in the balance sheet. The depreciation on the capital assets will then be reported as an expense in the statement of revenues and expense. With this change, the financial statements of a government entity will look similar to a for-profit business financial statements.
- d) The main change is the inclusion of fixed assets; i.e., land, buildings and equipment, with depreciation on these items to be reported for the year ending March 31, 2005. To implement this reporting change we recommend that the Authority begin taking steps now to accumulate the necessary information to comply with the new reporting format. We are available to assist you with the implementation of accounting for your fixed assets.

General Fund Deficit

At year end, the General Fund had a deficit of \$411. This deficit and technical bank overdraft was eliminated with bank deposits made on April 5, 2004.

We would like to thank the Fire Department Board for its continued confidence in our firm

If you have any questions relative to the above comments and recommendations or other areas of your annual accounting, please feel free to call on us.

Very truly yours,

BAIRD, COTTER AND BISHOP, P.C.

*Baird, Cotter + Bishop, P.C.*

*Baird, Cotter and Bishop, P.C.*

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September 27, 2004

LETTER OF REPORTABLE CONDITIONS

To the Fire Board  
Lake Missaukee Area Fire Authority  
Missaukee County  
Lake City, Michigan

In planning and performing our audit of the general purpose financial statements of Lake Missaukee Area Fire Authority, Lake City, Michigan for the year ended March 31, 2004, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control structure. However, we noted certain matters that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the general purpose financial statements.

The relatively small number of people involved in the accounting functions of the Authority make it difficult to adequately segregate duties. Segregation of accounting duties is a fundamental method of strengthening internal control. However, in deciding what internal control procedures should be implemented, the Board must consider the costs of implementing them and weigh those costs against the benefits to be derived from their implementation.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe that the condition described above is a material weakness.

This report is intended solely for the information and use of the Board and others within the organization. This restriction is not intended to limit the distribution of the report, which is a matter of public record.

Very truly yours,

BAIRD, COTTER AND BISHOP, P.C.

*Baird, Cotter & Bishop, P.C.*